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## MEMORANDUM FOR THE RECORD

Staff Meeting Minutes of 26 October 1979

The Director chaired the meeting; Mr. Carlucci was en route from a conference [redacted]

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Clarke precipitated discussion on overnight ABC press reports of a possible nuclear explosion (22 September) in the South Atlantic near South Africa, and revelations including quotes from a recently published CIA classified report, Internal Stability in Morocco (shown on ABC's "GOOD MORNING AMERICA" on 26 October). Reporting from this document centered on the future of King Hassan. Clarke and [redacted] (Office of Public Affairs) provided a television clip presentation of today's "GOOD MORNING AMERICA" program on these items. The Director said he learned of the newsbreak on the nuclear item late yesterday afternoon and explained his understanding of how ABC's John Scali picked up this item. The Director expressed his regret that faulty press reporting on this item got ahead of us--e.g., there is insufficient evidence at this time to pin the event on South Africa. He said he had not been able to gear up Hetu with sufficient information in time for us to take the initiative with the media. He said also he phoned some HPSCI and SSCI members last evening to advise them; he also informed them Bruce Clarke is prepared to provide briefings as needed. The Director advised Hitz that our responses in this situation should be directed only to the oversight Committees. Clarke noted re the news item on Morocco that the Director will be meeting this morning with Moroccan Ambassador Bengelloun. [redacted]

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Stein reported briefly on his very favorable impressions of the current CT class. [redacted]

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[redacted] said we owe NSC Press Secretary Schecter a statement on the Morocco news item. The Director advised such a statement convey that press reports on this item are a selected distortion, and we should underscore press irresponsibility in the TV display of a classified Agency document; he added we should cite particular dangers of the media dealing recklessly with classified information. Clarke recommended a "no comment" but will review and advise the Director. [redacted]

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Clarke called attention to today's New York Times op ed article, "Of Dollars and Rubles" by Franklyn Holzman (attached). He said Holzman tears into the Agency's views of Soviet defense spending. Clarke said he has instructed OSR to prepare a statement on this, especially in light of SASC Senator Harry Byrd's intention to hold an open hearing on 1 November re Soviet defense spending. In response to a query from the Director, Hitz said he has been unsuccessful thus far in attempts to dissuade Senator Byrd from an open session and suggested a phone call from the Director to the Senator may be more effective. [REDACTED]

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[REDACTED]

May reported the Combined Federal Campaign is off to a slow start and asked for a boost from Agency senior management. He said participation at this point ranges from 3.3 percent to 32.3 percent with an average of 13.8 percent. Relatedly, he reported a rumor that Federal employees are boycotting the campaign in retaliation for paid parking, but May said he has seen no evidence of this within CIA. [REDACTED]

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The Director noted his trip to Pittsburgh today and asked Taylor to provide him with background on any contracts we have underway with [REDACTED]

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The Director told Clarke he would like to meet this morning with appropriate officers from OER and OPA, and with the NIO/NESA to briefly review the situation re an upcoming Department of Commerce meeting on U.S. businesses in Iran. He said [REDACTED] should carefully review the list of 39 U.S. firms involved, and he said he would note this when he addresses the [REDACTED] conferees this morning. [REDACTED]

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The Director gave a brief summary of items discussed at Wednesday's Cabinet meeting, including:

- Cutler's progress in shepherding SALT through Congressional committees--completion expected in a week or so.
- Senator Robert Byrd has written to the President re support for SALT.
- Ambassador McHenry's report that the UK will not extend its sanctions on Rhodesia beyond the expiration date.
- The President's expressed interest in involving more segments of American society as a positive force in the situations of Central America.
- Discussion of the Taiwan situation--treaty abrogation.
- The President's support to Kampuchea--\$69 million in aid.
- Schultz's reporting on the economic recession and inflation at 13 percent. [ ]

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The Director reported briefly on the SCC meeting (Interrelationship Between the Energy Problem, Future of the Dollar, and U.S. National Security) last evening with Secretaries Duncan, Brown, and Vance; Dr. Brzezinski; and others in an exchange of domestic and foreign policy views. He noted former Governor Askew (Florida) was in attendance as U.S. Special Trade Representative vice Robert Strauss. The Director said we should make contact with Askew via letter, offering the same services we provided to Strauss. He said the letter should invite Askew to a breakfast or luncheon at Headquarters. Clarke said he will prepare the letter. The Director said the group will meet again on 11 November. [ ]

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The Director announced regretfully that John Waller will retire in January 1980 after 33 years of service. He praised Waller for his work and support, noting that John has been a "solidifying force" in Agency dealings with some very difficult problems. [ ]

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The Director announced also that [ ] has been reassigned to the Office of the Inspector General. He expressed warm appreciation for [ ]; excellent support and for his effectiveness in keeping Agency principals well informed on DCI matters. He said [ ] duties will be taken up jointly by [ ] Noting that [ ] will rotate back to his parent organization sometime this winter, he solicited nominations for Jack's position and gave details of his requirements. The DCI asked Evans to solicit nominees from D/EE0 [ ] and D/Women's Program [ ]

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THE NEW YORK TIMES, FRIDAY, OCTOBER 26, 1979

MEDFORD, Mass. — Central Intelligence Agency documents of the last eight years indicate that the Soviet Union has been outspending America on defense annually. If the C.I.A.'s data are accurate, they would constitute important evidence for the debates over SALT II and the American defense budget. But I think that they are not.

There are many sources of possible exaggeration in the C.I.A. estimates of Soviet military expenditures relative to America's. Three of them follow:

1. Comparisons of military outlays can be made either in dollars or rubles. The C.I.A.'s published comparisons are always in dollars. Prices expressed in dollars exaggerate Soviet expenditures; prices in rubles exaggerate American expenditures. This is because the Soviet armed forces have twice the personnel of America's but add only a little more new equipment each year, and because, in the words of the Director of Central Intelligence, Adm. Stansfield Turner: "In the United States manpower is relatively more expensive than hardware [while] in the Soviet Union military hardware is much more expensive than manpower." So, when the cost of the personnel of the Soviet armed forces, with their 4.5 million people — the precise number is hard to ascertain — is valued at American armed forces wages, a high Soviet defense figure, in dollar terms, results. This figure would be about \$10 billion smaller if military pay were adjusted for the lower educational and training levels of Soviet soldiers. A 20 percent pay discount is regularly made by the C.I.A. in dollar comparisons involving other sectors.

2. A ruble comparison, which the C.I.A. says is as valid as the dollar comparison, exaggerates American expenditures. This is because our armed forces have more equipment

## Of Dollars And Rubles

By Franklyn D. Holzman

per person than the Soviet forces and because equipment is relatively high priced in the Soviet Union. The C.I.A. admits this and in response to Congressional questioning presented an unofficial comparison in rubles that put Soviet 1977 defense expenditures at 25 percent more than America's. This is less of a difference than the official dollar comparison, which has the Russians outspending us by 40 percent. While these two not-very-different figures satisfy Congressional interrogators, it did not satisfy economists used to such United States-Soviet comparisons. Experience has shown that ruble-dollar differentials typically exceed 50 percent. Clearly, then, if the Soviet Union outspends the United States in dollars by 40 percent, one would expect the United States to equal or outspend the Russians in rubles. These C.I.A.'s figures, therefore, are highly suspect.

3. According to the C.I.A., the major reason why a careful ruble estimate is not made and published is that while all military equipment the Russians produce is within our technology and can be given a real dollar price, a large part of United States equipment is beyond Soviet technology and cannot be given an actual ruble price. The C.I.A. procedure in valuing American high-technology equipment is to use ruble prices "applicable to the closest substitute goods which can be produced in both economies." What

this means is that the C.I.A.'s ruble calculation values this American equipment at ordinarily high Soviet ruble prices but not at what the former Director of Central Intelligence William E. Colby called prices that are so high as to be "almost uncountable." No wonder American defense expenditures priced in rubles are estimated at less than the Russians' defense expenditure. If a properly high ruble price tag could be put on our high technology, the American defense package would certainly cost the Russians more to produce than their own. It might well be that they cannot produce our defense package at any cost.

The major fallacy in the C.I.A. procedure is that the very dimension of the arms race in which America has the greatest advantage — advanced technology — and which makes most of the difference between military superiority and inferiority, is enormously undervalued. The C.I.A.'s ruble comparison asks implicitly: Which country's defense package would cost the Russians more to produce assuming that America has no technological lead? This question is a proxy for another one: Which country's defense package is stronger, assuming that the United States has no lead in weapons technology? These questions are analogous to asking: Would Wilt Chamberlain have been a great basketball player if he had been six-foot-one instead of seven-foot-one inches tall? All things considered, the C.I.A.'s categorical conclusion that the Soviet Union is outspending the United States on defense may well be a figment of its faulty methodology.

Franklyn D. Holzman, professor of economics at Tufts University and an associate at the Harvard Russian Research Center, wrote "Financial Checks on Soviet Defense Expenditures."